

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE DRAKENSTEIN MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Drakenstein Municipality set out on pages 6 to 76, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Drakenstein Municipality as at 30 June 2013 and its financial performance, cash flows and statement of comparison of budget and actual amounts for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Drakenstein municipality at, and for the year ended, 30 June 2012.

### **Significant uncertainties**

9. As disclosed in note 48 to the financial statements, the municipality is the defendant in the following lawsuits:

- Claim for damages for three cases that the municipality is being sued for amounting to R567 632 053
- Claim for services rendered amounting to R1 287 012
- The trade union, IMATU, contested the implementation of a wage curve agreement in the labour court and the court ruled in favour of IMATU. The employers' organisation, SALGA, resolved to take the ruling of the labour court on review.

The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Material Impairments**

10. As disclosed in note 19, 19.1, 20 and 20.1 to the financial statements, the municipality has provided for an impairment of receivables amounting to R144 523 179 based on the recoverability.

### **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 77 to 88 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Material inconsistencies in other information included in the annual report**

13. To date we have not yet received the complete draft annual report. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
17. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned key performance areas. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
18. The reliability of the information in respect of the selected key performance area is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

#### **Usefulness of information**

20. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 23% of the targets and significantly important targets in relation to the overall mandate of the municipality. This was due to the fact that management was aware of the requirements of the *FMPPI*, but did not receive the necessary training to enable application of the principles.

#### **Reliability of information**

21. The National Treasury *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significantly important targets with respect to the Physical Infrastructure and Energy Efficiency (KPA 2) are not reliable when compared to the source information and evidence provided.

This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

### **Compliance with laws and regulations**

22. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

#### **Annual financial statements**

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure management**

24. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

## **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

26. Standard operating procedures to address prior year findings were not implemented in a timely manner in order to assist management to set indicators and targets that are measurable and achievable. At the time the standard operating procedures were implemented, the intended purpose of the indicators were already developed and could not be changed, thereby resulting in the unintended consequences of some of the indicators not being measurable. In addition to this, the municipality did not ensure that all the managers are well trained to understand the performance objectives of each indicator set by them. As a result, the annual performance report was materially misstated.

## **Financial and performance management**

27. Reasonable steps were not taken to prevent unauthorised expenditure due to the municipality not being able to properly budget for all year-end GRAP adjustments.
28. The financial statements submitted for audit on 31 August 2013 contained material misstatements that were subsequently corrected by management.
- It was identified that the records relating to the unbundling of assets with the adoption of GRAP was not retained and not easily available for the municipality's review purposes. As a result, items selected from the asset register could not in all instances be verified for existence and was found to have been incorrectly capitalised.
  - The financial statements and subsequent changes were not sufficiently reviewed to ensure that the amounts disclosed on the face of the financial statements are appropriately referenced to and supported by the notes and that the information disclosed is accurate, complete and properly disclosed in the financial statements. As a result, errors were identified where the short term portion of the provision for the rehabilitation of landfill sites was included in non-current liabilities and the deviations disclosure note 44 was the total deviations for June 2013 and not for the whole financial year. Management did also not consider presenting comparative information for the prior period in note 42.1: unauthorised expenditure, mainly due to the disclosure being a MFMA requirement.
29. It was determined that the performance management sheets, which include the technical indicator descriptions, were only developed at the end of the financial year and were not understood in a similar manner by all programme managers, giving rise to inconsistent treatment of the information included on the management sheets. Management did furthermore not properly define all the indicators and related targets to have a clear and unambiguous meaning, mostly due to having different interpretations and understandings of what is required.

## OTHER REPORTS

### Investigations

30. The following investigations are being conducted:

- Alleged irregularities in the supply chain management processes.
- Alleged irregularities in the housing project: Amstelhof 35.
- Alleged bribery.

The investigations were still ongoing at the reporting date.

*Auditor-General*

Cape Town

29 November 2013



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